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CORPORATION FILE

NATIONAL DAIRY PRODUCTS CORPORATION

ANNUAL REPORT 1959

NATIONAL DAIRY
PRODUCTS CORPORATION

Divisions

KRAFT FOODS

SEALTEST FOODS

BREAKSTONE FOODS

SUGAR CREEK CREAMERY

HUMKO PRODUCTS

METRO GLASS

• • •

RESEARCH AND DEVELOPMENT

SYMBOLS OF A TRADITION . . . AND A BUSINESS

A typical home with the family seated at the dining table—laden with food essential to health and well-being . . . this is a simple and familiar scene, yet its meaning runs deep. For the hungry, happy group symbolizes our national tradition of family unity and the abundance of good things within easy reach of all Americans, young and old.

The emblem at the left has an equally deep meaning for us of National Dairy. It is a new symbol, introduced for the first time on the cover of this Annual Report. By use with the name National Dairy, this symbol reflects the quality, service and integrity for which that name has always stood—and always will.

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NATIONAL DAIRY PRODUCTS CORPORATION

Annual Report

1959

Contents

	Pages
Our New Symbol	*Inside front cover*
Annual Meeting Date	1
Review in Brief	2
To Our Stockholders	3
Report of Management	4-15
Map of Operations and Related Data	12-13
Consolidated Balance Sheets	16-17
Statements of Consolidated Profit and Loss	18
Statements of Consolidated Surplus	19
Notes to Consolidated Financial Statements	18-20
Auditors' Certificate	20
Financial Statements—Foreign Subsidiaries *(other than Canadian)*	21
Ten-Year Statement—Assets and Liabilities	22
Ten-Year Statement—Profit and Loss	23
Board of Directors and Committees of Board	24
Officers and Operating Committee	*Inside back cover*

ANNUAL MEETING: The Annual Meeting of the stockholders of National Dairy Products Corporation will be held on Thursday, April 21, 1960, at 11 a.m. at the Hotel Commodore, 42nd Street and Lexington Avenue, New York City. A formal notice of the meeting, together with proxy statement and proxy form, will be mailed to each stockholder on or about March 25, at which time proxies will be requested for use at this meeting.

Review In Brief

OPERATING RECORD

	1959	1958*
WE RECEIVED INCOME:		
From the Sale of Products	$1,605,725,000	$1,548,386,000
From Other Sources	6,322,000	4,548,000
Total Income	$1,612,047,000	$1,552,934,000
WE INCURRED COSTS AND EXPENSES:		
Milk and Other Products	$ 884,761,000	$ 850,022,000
Wages and Salaries	256,331,000	255,602,000
Operating Services and Supplies	163,626,000	158,080,000
Packaging	126,490,000	120,376,000
Taxes	66,938,000	61,502,000
Repairs and Maintenance	29,948,000	28,317,000
Depreciation	31,788,000	30,636,000
Interest on Long-term Debt	2,803,000	2,943,000
Total Costs and Expenses	$1,562,685,000	$1,507,478,000
WE EARNED:		
In Total	$ 49,362,000	$ 45,456,000
On Each Share of Stock	$3.51	$3.27
On Each Dollar of Sales	3.07%	2.94%
WHICH WAS DISTRIBUTED AS FOLLOWS:		
Retained in Business	$ 22,045,000	$ 20,483,000
Dividends to Shareholders	27,317,000	24,973,000
Per Share	$1.95	$1.80

FINANCIAL POSITION

	1959	1958*
WE OWNED:		
Cash	$ 38,719,000	$ 44,868,000
U. S. Government and Other Short-term Securities	23,779,000	17,068,000
Accounts Due Us	78,710,000	76,456,000
Products, Materials and Supplies	194,213,000	181,584,000
Property, Plant and Equipment (net)	290,242,000	276,815,000
Investments and All Other Assets	16,419,000	13,684,000
Total Owned	$ 642,082,000	$ 610,475,000
WE OWED:		
For Materials, Services and Taxes	$ 139,840,000	$ 130,574,000
Long-term Debt (less in treasury)	89,038,000	92,555,000
Reserves, etc.	9,349,000	12,333,000
Total Owed	$ 238,227,000	$ 235,462,000
NET WORTH:		
Difference between What We Owned and What We Owed	$ 403,855,000	$ 375,013,000

**Restated to include all foreign subsidiaries.*

(The statements of Consolidated Profit and Loss and Surplus will be found on pages 18 and 19; Consolidated Balance Sheets on pages 16 and 17.)

To Our Stockholders:

As this Annual Report shows, 1959 was another prosperous year for National Dairy. Sales, earnings and dividends reached record levels as the Company moved steadily forward on all major programs.

In the United States, in Canada and in countries overseas, the men and women of National Dairy continued during the year to work closely with farmers, suppliers, distributors and food merchants to bring more-and-more products to increasing millions of consumers. Once again, as a great and diversified food company, our expanding operations enabled us to meet the primary objective of helping to feed the public.

This Annual Report tells the story, in text and illustration, of the way we did that last year and the growth in the business which resulted. To be sure, it is the story of one company in one essential industry . . . Yet it has its counterparts in all industry . . . And thus it reflects to a high degree the American genius for organization, productivity, and the acceptance of responsibility which have made our country great.

We hope that this Annual Report will give you pride in the performance of your Company during the past year.

E E Stewart
Chairman of the Board

Report of Management

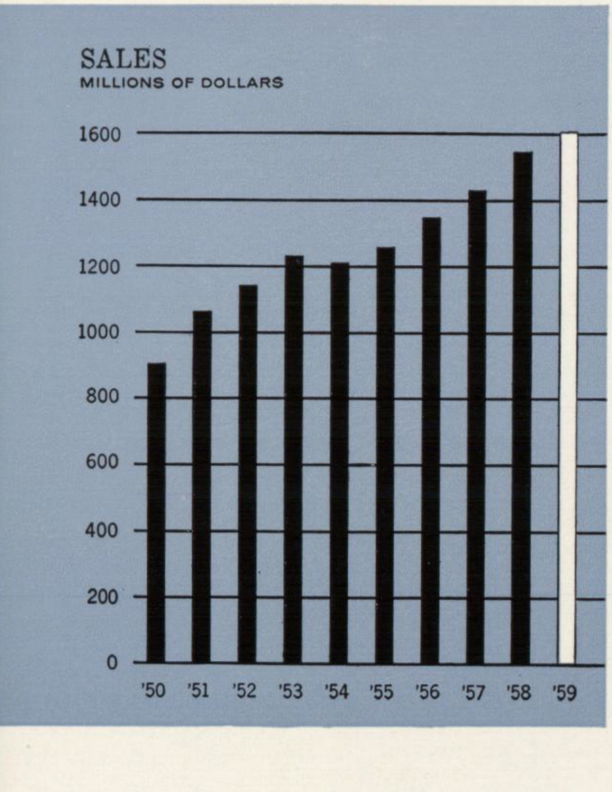
In 1959, National Dairy completed its most successful year, with sales and profits surpassing all previous records. It was a year of growth throughout our operations, reflecting not only a good economic climate, but also the advantages of the broad range of our products and the wide scope of our markets. All Divisions showed an increase in sales over 1958, and each contributed significantly to our consolidated income.

In recent years, our Consolidated Financial Statements have reflected only the United States and Canadian operations, with a separate schedule covering other foreign subsidiaries. However, in order to give the total picture of the business, we are starting with this Annual Report to include the results of overseas operations in the Consolidated Statements. We are doing this because the business of these subsidiaries has grown into an important part of our operations with the expansion of foreign economies. They have benefited from the know-how and the facilities which the Company has provided, and now operate as effectively as any other area of the business. These facts, together with the soundness of their currencies, make the consolidation of all foreign subsidiaries a logical step.

The total results accomplished last year by our domestic operating divisions and foreign subsidiaries are shown in the Financial Statements on Pages 16-23. For comparative purposes, the 1958 figures (including those reflected in the charts) have been restated to include all foreign subsidiaries. A Statement covering the foreign operations other than Canadian appears on Page 21.

SALES

In 1959, we processed and delivered to our customers a greater volume of food products than ever before, with major lines showing very satisfactory gains in tonnage. For the third successive year, domestic and foreign sales combined were in excess of a billion and a half dollars, with foreign sales excluding Canadian passing one hundred million dollars for the first time. Total sales in the United States, Canada and abroad were $1,605,725,000 as compared with $1,548,386,000 in 1958, an increase of $57,339,000.



PROFITS

The Company's profits rose to all-time highs in 1959. Net earnings increased for the eighth successive year, climbing to $49,362,000 for a gain of 8.6 per cent over the previous record of $45,456,000 in 1958.

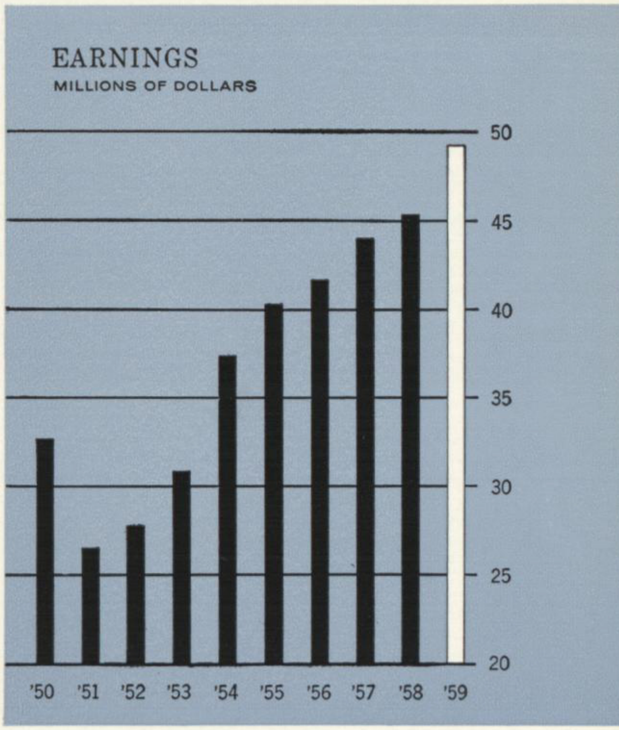
Net earnings equaled $3.51 per share for 1959 as compared with $3.27 per share for the previous year.

Earnings before income taxes amounted to $98,462,000 as compared to $90,491,000, an increase of 8.8 per cent.

Provision for Federal and foreign income taxes for 1959 totaled $49,100,000. Other taxes amounted to $17,838,000 bringing our total tax bill to $66,938,000 or $4.76 per share. This is $1.25 a share more than net earnings.

These earnings for the year were achieved despite the constant pressure from the increased costs of doing business. Our new plants with their efficient, modern equipment were a significant factor in helping us to maintain profit margins in the face of rising disbursements for wages, supplies, transportation and services.

Our expenses for the year, as a percentage of sales revenue, were as follows: 55.10% for raw materials; 15.97% for wages and salaries; 21.69% for other operating charges, and 4.17% for taxes. The remaining 3.07% was net profit.



EARNINGS
MILLIONS OF DOLLARS

DIVIDENDS

During 1959—the 36th consecutive year of quarterly dividends — our shareowners received the record total of $27,317,000 in dividends as compared with $24,973,000 in 1958. The dividend was increased for the second quarter of 1959 to 50¢ a share, up 5¢ a share from the previous quarter. The 50¢ dividend was also paid for the third and fourth quarters making the total for the year $1.95 a share as compared with $1.80 for 1958. At the year-end, there were 69,708 registered owners of the business, including 67,338 individual stockholders and 2,370 institutional investors, such as financial agencies, insurance companies, mutual and pension funds, universities and charitable organizations. There were 14,057,737 shares of stock outstanding as compared with 13,895,177 shares in 1958.

FINANCIAL POSITION

The Company strengthened its financial position in 1959. Working capital amounted to $194,429,000. Property, plant and equipment, less depreciation, amounted to $290,242,000, while total assets were $642,082,000. During the year, long-term debt was reduced to $87,886,000. Stockholders' equity was $403,855,000, an increase of $28,842,000, and equaled at the year-end $28.73 per share as against $26.99 per share in 1958.

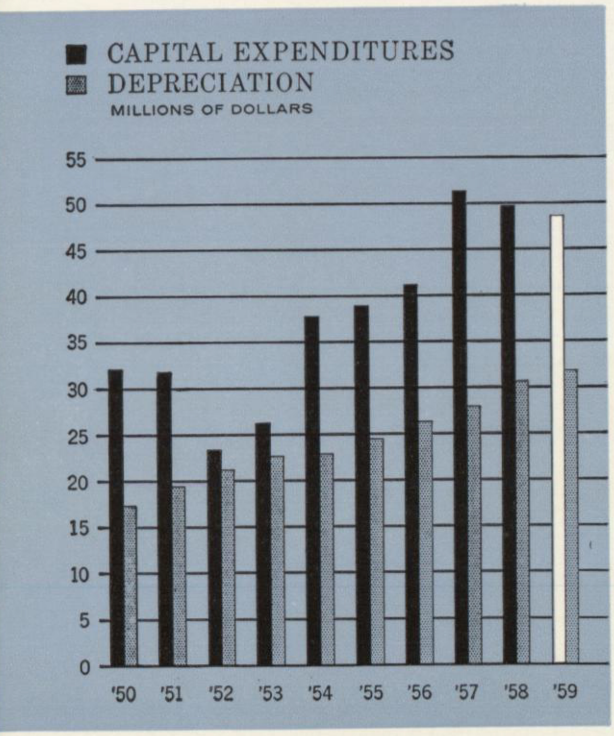
CAPITAL EXPENDITURES

Capital expenditures of $48,568,000 were made during the year to provide us with new and modern plants and equipment, and the necessary additions and replacements to production and distribution facilities, including motor vehicles. Retained earnings and depreciation proved sufficient for our capital investment outlay. Late in 1959, the Board of Directors authorized a budget of $60,128,000 from which appropriations will be made as needed for capital expenditures in 1960. This includes a budget of $7,588,000 for our foreign operations.

In order that our Directors could inspect an outstanding example of the Company's building program, the November meeting of the Board was held in the new Kraft Foods plant at Buena Park, Calif., near Los Angeles. Preceding the meeting, Directors toured the plant which is one of our largest, serving a sales area of nine Western states with a broad line of our Kraft products. During 1959, we also completed for use of this Division an addition to its large processing plant at New Ulm, Minn.

For our Sealtest Foods Division, a modern milk processing and ice cream distribution plant was opened at Louisville, Ky. in the spring. We also completed in 1959 substantial additions to existing Sealtest milk plants in Detroit, Mich. and Rochester, N. Y., and expanded the ice cream plants operated by this Division in Peoria, Ill. and Omaha, Neb.

Late in the year, we opened a new processing plant for our citrus operation at Lakeland, Fla., complete with the latest equipment for extracting and packaging orange juice

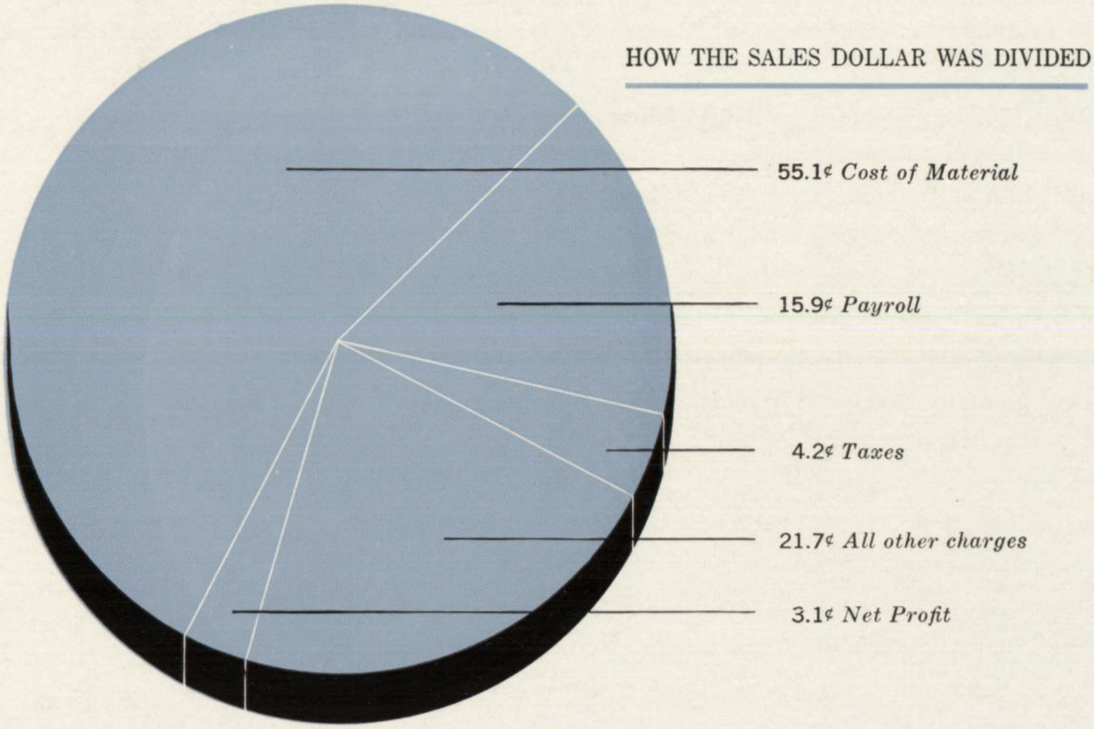


from freshly-picked tree-ripened fruit. From the filling-lines, the containers are shipped to our milk plants for local distribution as pure, ready-to-use Sealtest Orange Juice. A new warehouse was under construction which further enlarges our facilities at Lakeland, where we operate a processing plant to pack ready-to-serve mixed fruit salad.

Meanwhile, construction moved steadily ahead on the new plant in Northern New Jersey for our Metro Glass Division. A new office building and warehouse for this Division was completed at the Washington, Pa. plant, while production facilities there were converted from flint glass to amber glass containers for the food and beverage industries. In still another Division—Sugar Creek Creamery—the headquarters offices were moved from Danville, Ill. to Chicago; and a new butter plant was started at Indianapolis, Ind.

This typical scene, at a dairy case, shows some of the Company's many perishable products. Elsewhere in the store our numerous non-perishable products are displayed on the grocery shelves.

Old English
VELVEETA
KRAFT
Sealtest
VANILLA FUDGE
PARKAY
KRAFT DE LUXE
MIRACLE MARGARINE
MARGARINE



HOW THE SALES DOLLAR WAS DIVIDED

RESEARCH

Another important step toward insuring growth was taken during 1959 as we began the construction of a large, modern research laboratory at Glenview, Ill. near Chicago. The present facilities at that location are also being remodeled and will include all pilot plant activities. The administration building was completed and occupied last fall, while construction on the other buildings moved ahead. When finished and the newest of scientific equipment installed, all of our major research activities will be centralized at this location.

Through the Research and Development Division, all research activities are coordinated so that the other operating Divisions have constantly available to them the latest knowledge in food science and technology. This Division works in the fundamental chemistry of food in order to prepare for changes in the food business in the years to come. It plays a highly important role in developing new products to satisfy the ever-changing consumer desires in food and nutrition. It is concerned with the improvement of present products—in terms of better taste and better flavors—together with the better packaging which results in increased protection, quicker identification, and easier handling of product by the consumer.

In short, research falls into four principal phases —

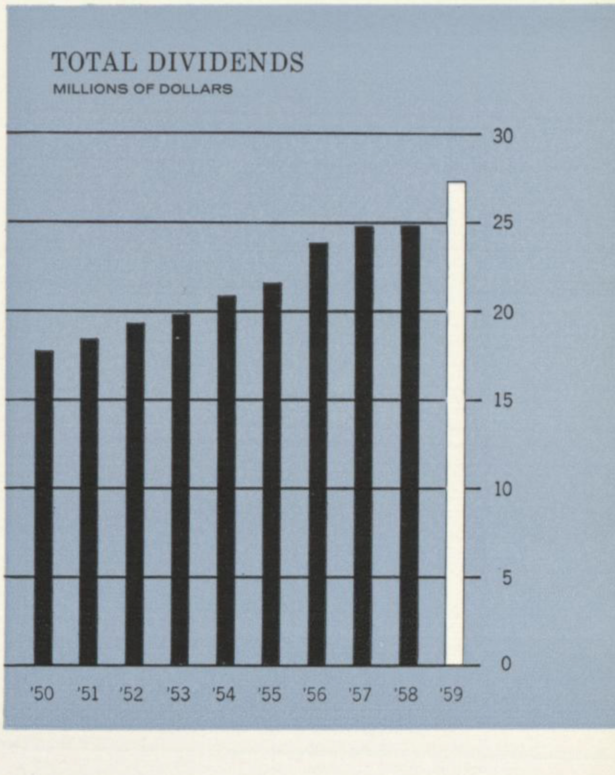
product improvement, process improvement, new product development and fundamental research. As new and improved products and methods flow from the laboratories, they are used by our consumer kitchens and the production, sales and engineering staffs of the various operating Divisions to make available to the consumer the best products and the best packaging that we can devise.

PRODUCT DEVELOPMENT

During the year, Kraft Foods launched several new products in the dessert topping field—including Caramel and Chocolate Sauces and Strawberry and Pineapple Toppings. Kraft's Jet-Puffed Marshmallows, introduced the previous year, went on to broader sales as further improvements were made in product quality and packaging. After market-testing, this Division's newly-developed Grated Romano was added to our extensive line of fine cheese products.

In the Sealtest Foods Division, outstanding new special flavors of ice cream were created and the design and convenience of containers improved, with the result that our ice cream sales increased substantially for the year. Late in the year, this Division also introduced in all its markets, a superior chocolate milk product developed after intensive home-use tests among hundreds of consumers in four representative cities. Following these tests, the product was modified to achieve perfection in flavor, color and texture, and a bright, new carton was designed with special appeal to children. Acceptance of this improved Sealtest Chocolate Milk has been most promising.

Another new Sealtest product, Dip 'N Dressing, was also successfully introduced in three different flavors, packed in distinctive plastic containers. The other dairy products of Sealtest Foods, as well as those of the Breakstone Foods Division, reflected the effects of imaginative developments in variety, flavor and packaging . . . particularly in the field of cottage cheese, a product whose usage has grown remarkably in recent times.



CHEMICALS FROM FOOD

Chemicals derived from fats are an activity of our Humko Products Division in Memphis, Tenn. In this chemical operation, unique processes have been developed

This cafeteria line reflects the varied use by the food-service trade of many of our products. Every dish shown here required one or more of them in its preparation.

to convert the by-products of edible oils into fractionated, highly-refined fatty acids and glycerine. These facilities have been modernized and expanded during the year, and new products added to the line of fat-derived chemicals. These products are increasingly used as basic materials by a wide variety of industries including plastics, paints, tires, cosmetics, waxes and other industrial products. Close co-operation between this activity and research is expected to expand our products in this rapidly-developing field.

Another area is the food supplementation business of Sheffield Chemical, which is a part of the Sealtest Foods Division. This operation supplies products derived from milk that are used in the processed food and pharmaceutical industries. Caseinates are utilized by the makers of such products as breakfast cereals and breads to increase the nutritional values by supplementing with high-quality milk protein. Lactates and milk sugar are used by pharmaceutical manufacturers in products ranging all the way from pill-coatings to baby food. These manufacturers also use our hydrolysates for cultures required in promoting bacteriological growth.

INTERNATIONAL OPERATIONS

Developments in the international business operated as part of the Kraft Foods Division paralleled domestic patterns, as we continued to make available to foreign markets the experience of our American operations. The substantial rise in 1959 sales and earnings in other countries reflected the successful introduction of new and improved products from this country, together with the increasing growth of product lines that have long been sold in these foreign lands. Operations also benefited from the use of improved marketing programs, and the modern plants built in recent years.

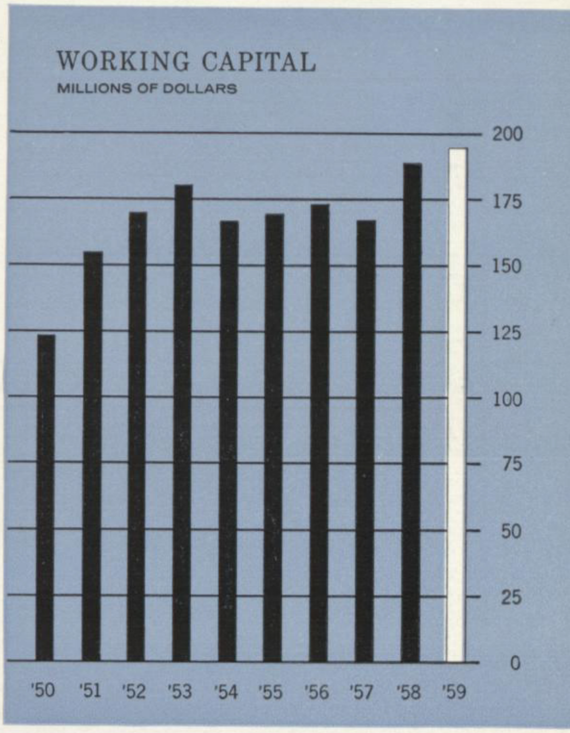
As our business in Canada grew, we moved toward completion of a large addition to our Montreal plant and distribution center. With increasing consumer demand, we continued to diversify our products throughout the Canadian provinces, adding Spaghetti Dinner, new flavors of preserves, and a line of fruit-flavored marshmallows.

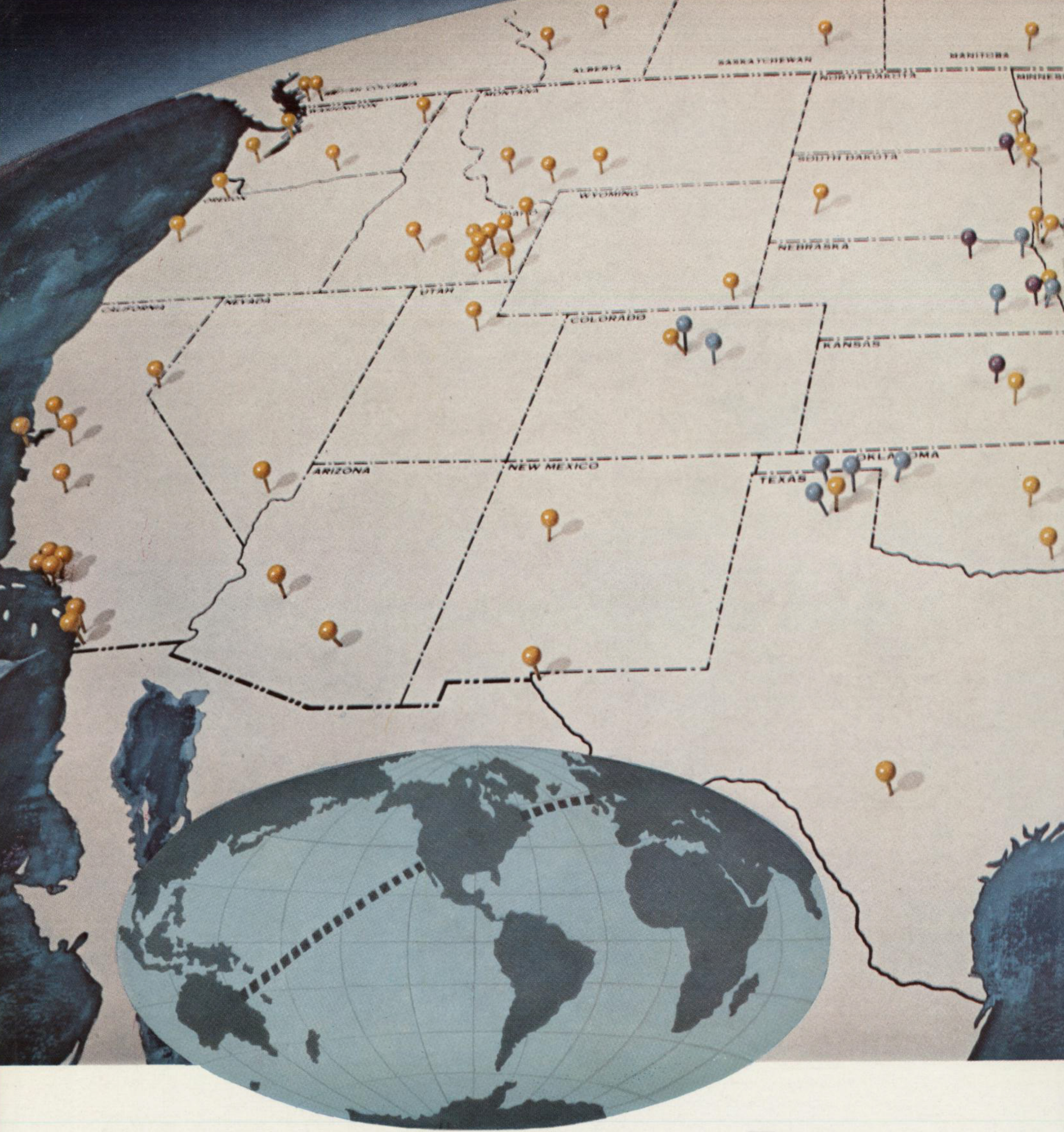
Overseas, our business expanded notably for the year. Sales in the British Isles forged ahead, and our services there were improved by moving the London general offices into more efficient quarters, and by completing a new sales branch in Glasgow, Scotland. For the first time, a whipped margarine was introduced to consumers in Great Britain. Cracker Barrel natural cheddar cheese was also placed in the British market during the year.

In West Germany, we completed important changes in our distribution pattern, and now have our own sales force which will be more effective in serving this fast-growing area. Kraft Mayonnaise packaged in a unique plastic bag was introduced in Germany last year, as well as several additional varieties of pre-packaged natural cheese and sliced process cheese.

In Australia we acquired during the year the outstanding common stock interests in exchange for National Dairy shares, which have been listed on Stock Exchanges of that country. This gives to National Dairy the distinction of being the first American corporation whose shares are traded on these exchanges. Into the consumer markets of

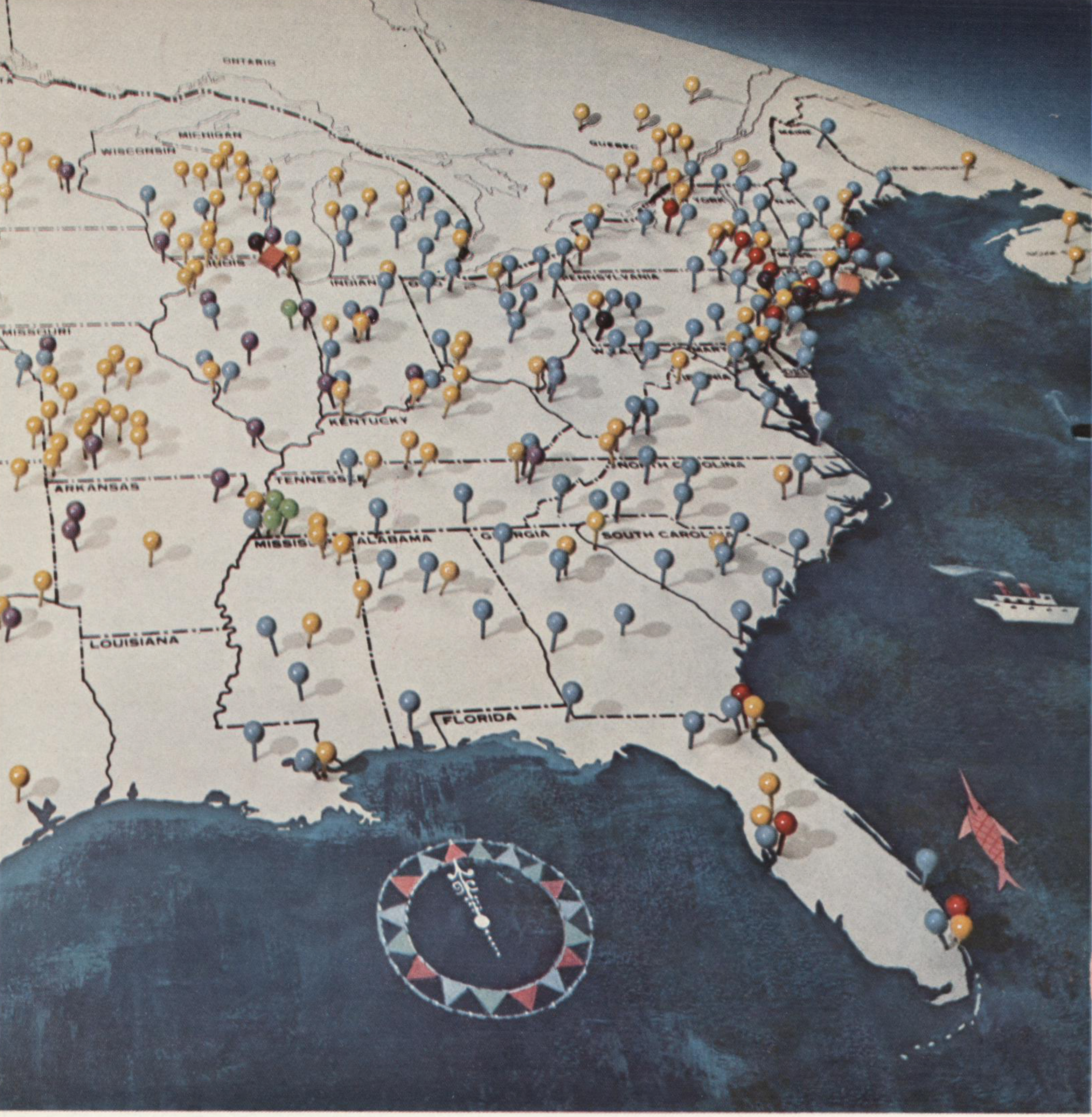
(Continued on Page 14)




SASKATCHEWAN
MANITOBA
ALBERTA
MONTANA
NORTH DAKOTA
SOUTH DAKOTA
WYOMING
IDAHO
NEBRASKA
NEVADA
UTAH
COLORADO
KANSAS
ARIZONA
NEW MEXICO
OKLAHOMA
TEXAS

As this global map indicates, National Dairy's operations reach overseas into many of the most prosperous areas of the world.

The above map of the United
Company's larger processing pl
with the installations operated by
by matching color pins at the lo


ONTARIO
MICHIGAN
WISCONSIN
QUEBEC
MAINE
PENNSYLVANIA
MISSOURI
KENTUCKY
TENNESSEE
ARKANSAS
ALABAMA
SOUTH CAROLINA
LOUISIANA
FLORIDA

States and Canada denotes the
ants and distributing branches,
our various Divisions identified
ver right.

Key to Principal Locations of Our Divisions

Kraft Foods
Sealtest Foods
Breakstone Foods
Sugar Creek Creamery
Humko Products
Metro Glass
Research and Development

In the home kitchen, housewives find our products essential to the preparation of any meal — breakfast, luncheon, dinner . . . or, as in this case, in getting ready for a party.

(Continued from Page 11)

that country, we introduced a line of pre-packaged natural cheese, and a variety of flavored cheese spreads bearing the familiar Party Snacks and Handi-Snacks brand names.

In our highly competitive markets what was good enough yesterday is inadequate today; what is modern today will be obsolete tomorrow. With this in mind, we carried out in 1959 many marketing projects, including surveys of potential demand; tests in consumer preferences, and special store studies to get on-the spot opinions about the convenience, desirability and identification of products and packaging. Guided by these findings, national and regional campaigns using all communications media—network television, radio, newspapers, magazines and billboards—were devised to support sales activities.

During the year, fresh approaches were developed, too, in our effort to give practical assistance to our trade customers—retailers, wholesalers, restaurant operators and the managers of other food-service establishments. We improved our services to these customers, providing speedier and more dependable delivery and direct, on-the-premises aid to promote ever-faster turnover of our products. This encourages customers to do business with the Company, and benefits us in terms of greater efficiencies in transportation and handling.

Pin-pointing Our Operations

In bringing its broad lines of diversified food products to the great American public and to the peoples of other countries, National Dairy in 1959:

- *Operated well over 200 processing and manufacturing plants and over 300 sales and distributing branches strategically located in markets of the American, European and Australian continents.*
- *Maintained, in addition, a number of supplementary installations, including scientific research laboratories; product control laboratories; various types of warehouse and cold storage facilities, and numerous receiving stations for materials.*
- *Operated the Nation's second largest commercial motor vehicle fleet, comprising over 16,000 trucks, trailers and sales cars which travel more than 200,000,000 miles a year.*
- *Employed a total of 48,809 men and women, 41,123 in the United States and 7,686 in other countries to process, distribute and service the food products we sold.*

The scope of the Company's distribution is reflected by its principal operating locations, which are illustrated on the contour maps appearing on the adjacent pages.

lift here

National Dairy's Operating Divisions

KRAFT FOODS DIVISION

. . . Sells its products in this country, in Canada, and serves many markets abroad. Kraft Foods manufactures and distributes more than 200 different food products. Its principal consumer lines include a wide range of cheese and cheese products, salad dressings, margarines, confections, cooking oils and shortening, jellies and preserves, condiments and other products.

SEALTEST FOODS DIVISION

. . . Markets milk and ice cream, cream, buttermilk, skim milk, cottage cheese, butter, orange juice and other products. Through processing and distribution facilities, Sealtest products are available to most communities east of the Rockies. This Division includes the Breyer ice cream business.

BREAKSTONE FOODS DIVISION

. . . Processes a fine line of quality dairy specialties. It is well-known for cottage cheese, butter and sour cream, as well as the more recently introduced whipped cream cheese and whipped butter. Distribution branches are maintained in key markets along the Atlantic seaboard.

SUGAR CREEK CREAMERY DIVISION

. . . One of the leading producers of quality butter in the United States, this Division churns, packages and distributes butter from coast-to-coast. It produces the Sealtest brand butter which is distributed through our fluid milk operations—as well as a number of other brands which have been well-known for years, locally and regionally.

HUMKO PRODUCTS DIVISION

. . . Refiners of edible oils with facilities located in principal growing areas. These oils, and the shortenings that are also produced, are distributed in both the consumer and the food processing fields. Humko also produces a line of industrial chemicals derived from fats.

METRO GLASS DIVISION

. . . Manufactures glass containers that are used by many industries including food, beverage, household products and cosmetics. Metro supplies these containers in numerous sizes, shapes and varieties to National Dairy as well as to other industries, from plants strategically located to serve large marketing areas.

RESEARCH AND DEVELOPMENT DIVISION

. . . Is responsible for coordinating the Company's applied and fundamental research, and for the conduct of all laboratory activities. It works in close cooperation with the operating Divisions in the development of new and improved products and processes and the efficient use of by-products.

None of the three proceedings pending before the Federal Trade Commission mentioned in our last Annual Report have as yet been finally determined. After the conclusion of the hearings in the ice cream case, in which a variety of business practices common in the ice cream industry were alleged to constitute unfair trade practices, the Hearing Examiner found on every count for our Company. His decision has now been appealed to the Commission. Both of the other proceedings, the one under the Anti-merger Act and the other under the Robinson-Patman Act, are still in the hearing stage.

The Company and one of its officers have been indicted by a Federal Grand Jury at Kansas City, Mo. for alleged violations of the anti-trust laws in connection with the sale of milk in the Kansas City area. An indictment is only a charge of wrong-doing and we are confident that the trial in court, where all the facts are reviewed, will demonstrate that our local plant was merely responding in a lawful manner to competitive conditions.

At the April, 1959 meeting, the Board of Directors re-elected E. E. Stewart to the position of Chairman of the Board and chief executive officer. Mr. Stewart had been President of National Dairy since 1952, holding the additional position of Chairman of the Board in 1957-1958.

At the same meeting, J. Huber Wetenhall was elected President of the Company. Mr. Wetenhall served as Executive Vice-President for two years before becoming President; has been a Director since 1955, and has been associated with National Dairy for 31 years.

As we reached the end of 1959, the Company was stronger than ever before —in its financial status, its organization, its manufacturing and distributing facilities and its product diversification. Thus, as we go forward in the new decade of the 1960's, the Company is well-equipped to meet the challenge of the changing times.

We welcome this opportunity to thank our stockholders for their encouragement and continued interest in the business, and to express our appreciation for the splendid cooperation of our employees, customers, distributors and suppliers whose support meant so much to the Company's progress during the year.

By order of the Board of Directors.

E E Stewart
Chairman of the Board

J Huber Wetenhall
President

New York, N. Y.
March 3, 1960

CONSOLIDATED BALANCE SHEETS

ASSETS

	December 31 1959	December 31 1958
CURRENT ASSETS:		
Cash	$ 38,719,089	$ 44,868,131
U. S. Government and other short-term securities at cost, not in excess of market	23,779,312	17,067,778
Notes and accounts receivable, less reserve	78,710,223	76,456,171
Inventories, at lower of average cost or market—		
Products and materials	174,436,004	163,826,056
Supplies	19,776,645	17,758,278
Total Current Assets	$335,421,273	$319,976,414
MISCELLANEOUS INVESTMENTS, DEPOSITS AND RECEIVABLES (Less reserves)	$ 4,996,719	$ 3,473,048
PROPERTY, PLANT & EQUIPMENT (Stated substantially at cost):		
Land	$ 18,273,161	$ 17,987,055
Buildings	179,293,743	165,205,420
Machinery and equipment	324,118,692	310,431,072
	$521,685,596	$493,623,547
Less—Reserve for depreciation	231,443,280	216,808,500
	$290,242,316	$276,815,047
PREPAID AND DEFERRED ITEMS	$ 3,850,436	$ 3,860,819
INTANGIBLES	$ 7,571,706	$ 6,350,191
	$642,082,450	$610,475,519

(See Notes to Consolidated Financial Statements, pages 18, 19, and 20.)

NATIONAL DAIRY PRODUCTS CORPORATION
AND DOMESTIC AND FOREIGN SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS

LIABILITIES

	December 31	
	1959	1958
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$107,261,084	$ 98,141,218
Provision for Federal and foreign taxes on income	32,579,252	32,433,295
Sinking fund requirements and Note due within one year, less long-term debt held in treasury ($2,510,000 in 1959 and $2,480,000 in 1958)	1,152,000	882,000
Total Current Liabilities	$140,992,336	$131,456,513
LONG-TERM DEBT (See note)	$ 87,885,825	$ 91,672,877
DEFERRED FEDERAL AND FOREIGN TAXES ON INCOME	$ 6,384,614	$ 4,883,375
RESERVES FOR INSURANCE, ETC.	$ 2,964,618	$ 2,865,209
MINORITY INTEREST IN AUSTRALIAN SUBSIDIARY	—	$ 4,584,607
CAPITAL STOCK AND SURPLUS:		
Common stock, $5 par value (authorized 16,000,000 shares; issued and outstanding 14,057,737 shares at December 31, 1959 and 13,895,177 shares at December 31, 1958)	$ 70,288,685	$ 69,475,885
Capital surplus, per statement attached	24,239,108	18,254,576
Earned surplus, per statement attached	309,327,264	287,282,477
	$403,855,057	$375,012,938
	$642,082,450	$610,475,519

(See Notes to Consolidated Financial Statements, pages 18, 19, and 20.)

STATEMENTS OF CONSOLIDATED PROFIT AND LOSS

	Year ended December 31 1959	1958
INCOME:		
Net sales	$1,605,724,922	$1,548,385,892
Other income	6,322,344	4,548,317
Total	$1,612,047,266	$1,552,934,209
INCOME DEDUCTIONS:		
Cost of products	$1,188,277,100	$1,139,178,647
Delivery expense	158,538,517	159,568,849
Selling expense	109,494,144	106,203,831
General and administrative expense	52,482,888	52,539,265
Miscellaneous charges—net	1,989,297	2,008,788
Interest on long-term debt	2,803,236	2,943,297
Provision for Federal and foreign taxes on income	49,100,000	45,035,245
Total	$1,562,685,182	$1,507,477,922
NET PROFIT FOR THE YEAR	$ 49,362,084	$ 45,456,287

The provision for depreciation charged to costs and expenses amounted in 1959 to $31,788,268 and in 1958 to $30,636,019.

(See Notes to Consolidated Financial Statements, pages 18, 19, and 20.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS . . . *December 31, 1959*

PRINCIPLES OF CONSOLIDATION

All domestic and foreign subsidiary companies except a mutual insurance company have been included in the accompanying consolidated financial statements. Foreign subsidiaries other than Canadian heretofore have been excluded from consolidation since the year 1939. The accompanying consolidated financial statements for 1958 have been restated on a basis comparable with those for 1959. The effect of including in consolidation such foreign subsidiaries previously excluded has been to increase net sales by $112,546,000 in 1959 and $97,141,000 in 1958; to increase net income for 1959 by $2,047,000; to decrease net income for 1958 by $88,000; and to increase net worth by $13,468,000 at December 31, 1959.

EMPLOYEES' STOCK OPTION PLAN

Under the Employees' Stock Option Plan approved in 1952 and amended in 1958, there were 657,858 shares of the authorized and unissued common stock of the Company reserved at December 31, 1959, for sale to officers and other key employees. At that date 1,744 employees held options to purchase a total of 495,313 shares at prices ranging from $25.975 to

STATEMENTS OF CONSOLIDATED SURPLUS

	Year ended December 31, 1959	
	Earned Surplus	Capital Surplus
Balance at beginning of year, as previously reported	$275,861,547	$18,254,576
Add—Foreign subsidiaries other than Canadian	11,420,930	—
Balance at beginning of year, as restated	$287,282,477	$18,254,576
Net profit for the year	49,362,084	—
Excess of consideration received over par value of shares issued	—	5,984,532
	$336,644,561	$24,239,108
Dividends on common stock—$1.95 per share	27,317,297	—
Balance at end of year	$309,327,264	$24,239,108

(See Notes to Consolidated Financial Statements, pages 18, 19, and 20.)

COMPTROLLER'S CERTIFICATE

The foregoing financial statements have been prepared under my direction from the companies' books kept under my supervision and, to the best of my knowledge and belief, fairly state the consolidated position of National Dairy Products Corporation and domestic and foreign subsidiary companies as of December 31, 1959 and the consolidated operations for the year ended on that date.

New York, N. Y., March 3, 1960.

Comptroller

$48.25 per share, with an aggregate purchase price of $18,260,898, and 162,545 shares remained available for future grants. All options become exercisable in cumulative periodic installments extending over the terms of such options (generally ten years or to earlier retirement date), commencing not earlier than one year from date of grant. Options became exercisable during 1959 with respect to 72,797 shares having an aggregate purchase price of $2,540,516. During the year, 62,386 shares were issued under the Plan and the proceeds of $1,827,888 were credited to the common stock and capital surplus accounts.

INCENTIVE COMPENSATION PLANS

Under year-to-year incentive compensation plans of the domestic and foreign divisions, key employees received approximately $4,944,000 for 1959 and $4,306,000 for 1958. In 1959 these plans covered 2,554 employees; none of whom received as much as 1% of the total. No executive officer or director of the Company participated in these plans.

LONG-TERM DEBT AND EARNED SURPLUS

Long-term debt of the Company and its subsidiary companies, less current sinking fund requirements and

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS...*Dec. 31, 1959 (cont'd)*

maturities included in current liabilities, consisted of the following:

	December 31 1959	1958
Company—		
2¾% Debentures due 1970	$34,500,000	$36,000,000
3% Debentures due 1970	21,300,000	22,500,000
3⅛% Debentures due 1976 (less $127,000 held in treasury in 1959 in excess of current sinking fund requirements)	25,673,000	26,400,000
3⅛% Notes due $250,000 annually in Canadian funds	500,000	750,000
	$81,973,000	$85,650,000
Foreign subsidiaries (stated at U. S. dollar equivalent)		
Kraft Foods Limited (England) — 5% Debentures due 1975, with annual prepayments of $140,000 commencing in 1961, payable in English pounds	4,200,000	4,200,000
Kraft Holdings Limited (Australia) — 5% Mortgage Debentures due 1968, minimum annual sinking fund requirements $112,000, payable in Australian pounds (less $97,095 in 1959 and $92,771 in 1958 held in excess of current sinking fund requirements)	1,712,825	1,822,877
Total	$87,885,825	$91,672,877

The 2¾%, 3% and 3⅛% debentures of the Company also require that certain minimum amounts of debentures of each series be retired each year through the operation of a sinking fund. Aggregate minimum annual sinking fund requirements of these issues for 1960 and each of the succeeding four years is $3,300,000.

The Indentures under which the debentures of the Company are outstanding contain certain provisions with respect to the payment of dividends on capital stock. Under these provisions, $55,200,000 of consolidated earned surplus was not available for cash dividends at December 31, 1959.

COMPANY PENSION PLANS

Charges to costs and expenses with respect to pension plans of the Company and its domestic and foreign subsidiaries amounted to $7,553,000 in 1959 and $6,280,000 in 1958. The unfunded past service cost of the Company's domestic contributory and noncontributory plans for those of the eligible employees presently covered is estimated to be $30,200,000 at December 31, 1959, which is presently being funded in installments to 1981. An amendment to the contributory plan approved by the stockholders in 1959 provided for certain additional benefits for the participants in such plan. The Company also makes contributions to pension plans of certain unions representing its employees who have elected not to participate in the Company plans.

INTANGIBLES

The increase in intangibles in 1959 represents the excess of the purchase price paid for the acquisition of the minority interest in an Australian subsidiary over the net book value of the underlying net tangible assets attributable thereto.

AUDITORS' CERTIFICATE

To The Board of Directors and Stockholders of National Dairy Products Corporation:

We have examined the consolidated balance sheet of National Dairy Products Corporation (a Delaware corporation) and domestic and foreign subsidiary companies as of December 31, 1959, and the related statements of consolidated profit and loss and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We made a similar examination for the year 1958.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated profit and loss and surplus present fairly the financial position of National Dairy Products Corporation and domestic and foreign subsidiary companies as of December 31, 1959, and the results of their operations for the year then ended, and were prepared in conformity with generally accepted accounting principles which, except for the change (which we approve) referred to in the note on "Principles of Consolidation", were applied on a basis consistent with that of the preceding year.

New York, N. Y., March 3, 1960.

Arthur Andersen & Co.

FOREIGN SUBSIDIARIES OTHER THAN CANADIAN

COMBINED CONDENSED BALANCE SHEETS

	December 31 1959	1958
Current assets	$ 32,478,519	$26,409,029
Investments and other assets	165,997	159,757
Property, plant and equipment, less reserve for depreciation	23,666,210	23,392,810
Prepaid and deferred items	257,556	384,115
	$ 56,568,282	$50,345,711
Current liabilities	$ 17,218,972	$13,274,174
Long-term debt	5,912,825	6,022,877
Reserves for insurance, etc.	1,369,603	1,247,963
	$ 24,501,400	$20,545,014
Net tangible assets*	$ 32,066,882	$29,800,697
Less—Minority interest	—	4,584,607
Company's equity in net tangible assets	$ 32,066,882	$25,216,090

* *All inter-company accounts have been eliminated.*

COMBINED CONDENSED STATEMENTS OF PROFIT AND LOSS

	Year ended December 31 1959	1958
Income:		
Net sales	$112,545,575	$97,140,560
Other income	391,611	770,251
Total	$112,937,186	$97,910,811
Income deductions:		
Cost of products	$ 88,259,246	$74,550,725
Delivery, selling, general and administrative expenses	17,161,267	17,785,445
Interest on long-term debt	308,253	315,828
Provision for taxes on income	2,965,879	2,935,245
Total	$108,694,645	$95,587,243
Net profit	$ 4,242,541	$ 2,323,568
Less—Minority interest	—	522,380
Company's equity in net profit	$ 4,242,541	$ 1,801,188
Dividends received by Company	$ 2,195,942	$ 1,889,503

All assets and liabilities, other than property, plant and equipment, long-term debt and certain reserves, are translated at the rates of exchange prevailing at the end of each year. The effect of fluctuations in exchange rates is reflected in profit and loss.

NATIONAL DAIRY PRODUCTS CORPORATION
AND DOMESTIC AND FOREIGN SUBSIDIARY COMPANIES *

CONDENSED TEN-YEAR STATEMENT OF CONSOLIDATED ASSETS AND LIABILITIES

(All amounts are expressed in thousands)

WORKING CAPITAL	1959	1958	1957	1956	1955	1954	1953	1952	1951	1950
CURRENT ASSETS										
Cash and marketable securities	$ 62,498	$ 61,936	$ 73,253	$ 73,470	$ 94,386	$115,719	$131,711	$ 81,378	$ 81,306	$ 69,436
Notes and accounts receivable (net)	78,710	76,456	65,841	65,948	55,613	49,231	50,733	50,534	46,735	38,919
Inventories	194,213	181,584	146,417	150,135	135,488	111,912	107,306	136,865	122,750	94,434
Total Current Assets	$335,421	$319,976	$285,511	$289,553	$285,487	$276,862	$289,750	$268,777	$250,791	$202,789
CURRENT LIABILITIES										
Accounts payable and accruals	$107,261	$ 98,141	$ 90,168	$ 84,904	$ 75,305	$ 72,079	$ 58,281	$ 54,402	$ 54,143	$ 47,164
Federal and foreign taxes on income	32,579	32,433	24,968	28,897	38,617	36,334	49,729	42,777	39,479	30,600
Sinking fund requirements and Note due within one year, less long-term debt held in treasury	1,152	882	3,247	2,918	2,180	1,750	1,415	1,850	1,850	1,850
Total Current Liabilities	$140,992	$131,456	$118,383	$116,719	$116,102	$110,163	$109,425	$ 99,029	$ 95,472	$ 79,614
Working Capital	$194,429	$188,520	$167,128	$172,834	$169,385	$166,699	$180,325	$169,748	$155,319	$123,175
PROPERTY, PLANT & EQUIPMENT—NET	290,242	276,815	239,676	221,117	205,528	191,490	176,384	174,528	172,699	160,050
INVESTMENTS, OTHER ASSETS AND PREPAID ITEMS**	8,847	7,334	22,066	17,094	12,502	11,510	7,946	7,740	6,188	11,202
Total	$493,518	$472,669	$428,870	$411,045	$387,415	$369,699	$364,655	$352,016	$334,206	$294,427
LONG-TERM DEBT	$ 87,886	$ 91,673	$ 88,900	$ 92,150	$ 95,400	$ 98,650	$101,400	$103,850	$105,700	$ 77,550
RESERVES, ETC.	9,349	12,333	4,744	3,892	2,704	2,631	14,398	13,162	11,842	11,482
Total	$ 97,235	$104,006	$ 93,644	$ 96,042	$ 98,104	$101,281	$115,798	$117,012	$117,542	$ 89,032
Book Value of Common Stock**	$396,283	$368,663	$335,226	$315,003	$289,311	$268,418	$248,857	$235,004	$216,664	$205,395

NOTE: **Canadian subsidiaries included beginning in 1951 and all other foreign subsidiaries beginning in 1958.*

***Excluding intangibles.*

NATIONAL DAIRY PRODUCTS CORPORATION

AND DOMESTIC AND FOREIGN SUBSIDIARY COMPANIES*

CONDENSED TEN-YEAR STATEMENT OF CONSOLIDATED PROFIT AND LOSS

(All amounts are expressed in thousands, except per share and other statistics)

INCOME	1959	1958	1957	1956	1955	1954	1953	1952	1951	1950
Net sales	$1,605,725	$1,548,386	$1,432,319	$1,352,878	$1,260,230	$1,210,328	$1,232,126	$1,141,296	$1,066,177	$906,641
Other income	6,322	4,548	6,130	5,693	5,393	3,902	4,582	4,191	3,746	3,298
Total income	$1,612,047	$1,552,934	$1,438,449	$1,358,571	$1,265,623	$1,214,230	$1,236,708	$1,145,487	$1,069,923	$909,939
INCOME DEDUCTIONS										
Cost of products	$1,188,277	$1,139,179	$1,052,909	$ 986,071	$ 910,490	$ 874,950	$ 912,586	$ 852,988	$ 793,857	$662,935
Delivery expense	158,539	159,569	152,616	145,237	136,900	128,995	126,712	117,787	108,083	97,340
Selling expense	109,494	106,204	97,106	99,910	89,185	84,679	76,245	67,841	64,183	53,343
General and administrative expense	52,483	52,539	48,749	47,279	45,944	44,986	36,318	31,871	33,617	29,953
Miscellaneous charges—net	1,989	2,009	576	794	508	736	411	719	1,001	903
Interest on long-term debt	2,803	2,943	2,735	2,813	2,909	2,991	3,074	3,133	2,788	2,200
Federal and foreign taxes on income	49,100	45,035	39,700	34,750	39,340	39,500	50,525	43,349	39,876	30,600
Total income deductions	$1,562,685	$1,507,478	$1,394,391	$1,316,854	$1,225,276	$1,176,837	$1,205,871	$1,117,688	$1,043,405	$877,274
Net profit for the year	$ 49,362	$ 45,456	$ 44,058	$ 41,717	$ 40,347	$ 37,393	$ 30,837	$ 27,799	$ 26,518	$ 32,665
PAYMENTS										
Dividends	$ 27,317	$ 24,973	$ 24,892	$ 23,844	$ 21,601	$ 20,840	$ 19,853	$ 19,316	$ 18,460	$ 17,737
Payroll	256,331	255,602	244,558	233,491	221,866	211,522	203,724	190,482	177,752	161,601
Taxes	66,938	61,502	54,373	49,708	53,029	52,333	62,758	54,668	50,944	40,924
PER SHARE OF COMMON STOCK†										
Earnings transferred to earned surplus	$ 3.51	$ 3.27	$ 3.18	$ 3.02	$ 2.98	$ 2.77	$ 2.31	$ 2.11	$ 2.08	$ 2.57
Dividends	1.95	1.80	1.80	1.75	1.60	1.55	1.50	1.50	1.45	1.40
Taxes	4.76	4.43	3.93	3.60	3.91	3.88	4.71	4.15	3.99	3.22
Book value (excluding intangibles)	28.19	26.53	24.21	22.81	21.36	19.91	18.68	17.86	16.98	16.18
OTHER STATISTICS										
Number of—										
Stockholders	69,708	68,681	68,364	66,478	64,841	63,177	62,318	63,205	63,797	64,420
Employees	48,809	50,482	46,332	46,496	45,905	45,733	45,274	44,405	44,264	43,060

NOTE: *Canadian subsidiaries included beginning in 1951 and all other foreign subsidiaries beginning in 1958.

†All prior years adjusted to give effect to the 100% stock dividend of September 15, 1954.

NATIONAL DAIRY PRODUCTS CORPORATION

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** Denotes directors who are associated with organizations that are not divisions of National Dairy.*

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P. P. Miller
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NATIONAL DAIRY PRODUCTS CORPORATION

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Members of this committee are executives of National Dairy Products Corporation or of its divisions, and are designated by the Board of Directors.

Transfer Agent
MANUFACTURERS TRUST COMPANY
New York, New York

Registrar
THE CHASE MANHATTAN BANK
New York, New York

Counsel
SULLIVAN & CROMWELL

Auditors
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